CEE Economics

Poland

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Economic Comment

Strong rebound in wages, weaker output

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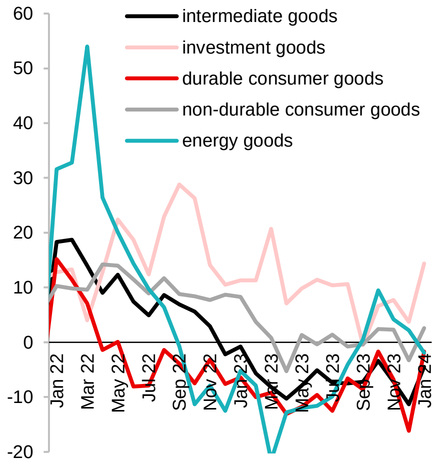
First part of January data from Polish economy showed much stronger than expected wage growth, weaker industrial output growth and deeper decline of producer prices. Wage growth rebounded to 12.8% from 9.6% (8.6% y/y in real terms – the fastest growth since 1H08) with strong growth especially in sectors with a high share of minimum wage earners. Output recovered to 1.6% r/r from -3.5% r/r in December (-0.2% m/m sa) mainly on working days effect, but the rebound was weaker than presumed. Detailed breakdown suggests data was a bit better that the headline would suggest. PPI growth went deeper into negative territory to -9% y/y mainly due to revision for December.

We expect wage growth to remain in double digits throughout the year, giving clear support to consumer income and spending. We presume the output will likely recover and would need stronger growth in the euro zone for more upbeat numbers. PPI inflation will likely remain negative nearly till year end and may reduce pressure on CPI. In our view wage data will be key argument for hawkish MPC members and it supports our view for no rate cuts this year.

Production in Main Industrial Groupings, % y/y

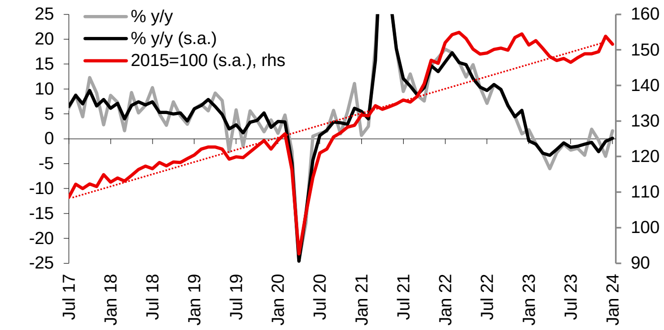


Source: GUS, Santander

Industrial output data surprised to the downside, but there are positive aspects

Polish industrial production rose 1.6% y/y in January, up from -3.5% y/y in December (which was revised higher from -3.9% y/y). Market consensus and our estimates pointed to +3.1% y/y. There was a strong working day effect that pretty much guaranteed a return to positive growth of the non-seasonally adjusted output growth in January. In s.a. terms, production was up 0.1% y/y and down 0.2% m/m (which is still a decent print given that it came after a December surge of around 3% m/m). The January headline growth was the largest miss vs. market expectations since April 2023, but there are some aspects of the reading that make us feel it is not a highly negative signal.

Industrial production in Poland



Source: GUS, Santander

First, the utilities output (generation and distribution of electricity, gas, heat and steam) became a volatile component of late, and this time contributed 1.4pp less to headline growth than in December, while we thought it would add even more instead, basing such view on reports of higher electricity production. Second, the breakdown of the output data by main industrial groupings reveals that intermediate goods and consumer durables saw a large improvement, going beyond their usual January rebound of activity – this might be an early sign of more demand coming from Europe. Also investment goods production recorded +14.4% y/y (the strongest print since Mar'23), up from 3.7% y/y in December.

Some industries saw in January a strong rebound after an unusually weak December performance (mining, plastic and wood products, chemicals, pharmaceuticals), while some show again m/m prints much below the usual seasonal pattern (tobacco products, apparel).

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January production data made bad first impression. Still, all in all, we see the them as a sign that the Polish industry is ready to deliver higher output growth, but faces demand constraint due to continued European economy's weakness.

Employment in line with expectations

Employment in the corporate sector fell by 0.2% y/y in January 2024, roughly in line with the market consensus and our forecast (-0.2% and -0.3% y/y respectively). It is important to remember that the January data are heavily influenced by the annual change in the surveyed sample of firms and usually depend on GDP growth in the previous year. Thus, a monthly change in employment of +0.3 m/m (+20.4k jobs) is fairly consistent with GDP growth of 0.2% in 2023. We expect employment to remain stable in the coming months.

Most sectors saw an increase in the employment estimate compared to the December data. However, employment fell in energy manufacturing and supply (-3.0k), construction (-2.8k) and administration and support activities (-1.4k).

Wages surprise upwards

Wages surprised on the upside in January, rising by 12.8% y/y against our forecast of 10.5% y/y, the market consensus of 11.2% y/y and December's reading of 9.6% y/y. Wages ex mining accelerated to 12.7% y/y from 9.6% y/y, and wages in services accelerated to 12.0% y/y from 9.0% y/y. In real terms, wages rose by 8.6% y/y - the fastest growth rate since the 1H2008. (sic!).

Strong momentum was evident in virtually all categories. Since wage growth surprised downwards at the end of 2023, we guess that employers delayed some of the wage hikes until January. Also higher minimum wage contributed to the strong headline, as it rose by 17.8% (to PLN4242 from PLN3600). A strong wage growth is particularly evident in sectors with a high share of employees earning the minimum wage, such as hotels and restaurants, administrative and support activities, and trade and transport, where pay schemes are often set based on the minimum wage.

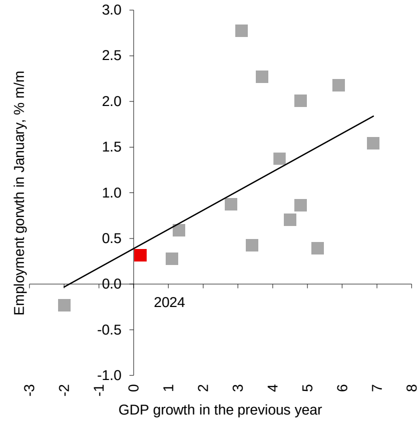
Although January was stronger than we expected, this does not change our views on the overall level of the underlying wage pressure. We expect wage growth to remain in double digits throughout the year, giving clear support to consumer income and spending.

Deeper deceleration in producer prices

Producer prices growth fell more into negative territory in January reaching -9% y/y vs. -6.9% y/y in December, vs. market expectations at -8.3% and also our estimate at -8.6%. Large part of the surprise in January print resulted from downward revision of December annual growth of 0.5pp driven by most of all categories and largest drop in manufacturing prices since May'23. Monthly PPI growth in January alone was in line with our estimate at -0.3% m/m though with much deeper drop in mining and higher price dynamics in manufacturing at 0.2% m/m. Core PPI growth decelerated to -8.3% y/y in January from -6% y/y in December.

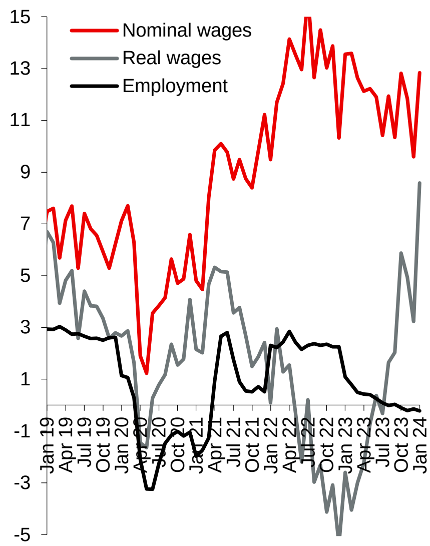
We presume the annual producer price dynamics may stabilize around current level -8-10% y/y in February and March supported by our assumption for stronger zloty. Following quarters will likely bring acceleration in PPI growth, which may reach positive territory at the end of the year. Negative monthly price growth in 1H should contribute to weakening CPI pressures as well.

Breakdown of change in annual CPI rate, % y/y



Source: GUS, Santander

Wages and employment, % y/y



Source: GUS, Santander

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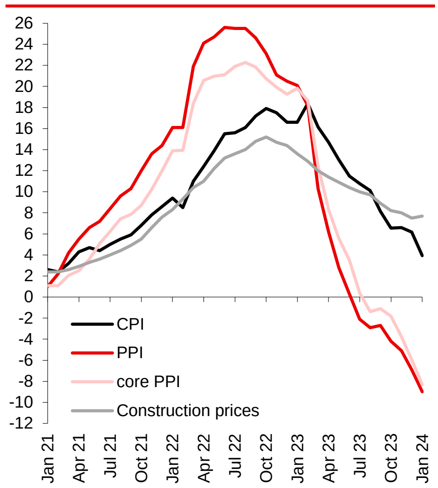

Source: GUS, Santander

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